

Payments for Affordable Care Act (ACA) Cost-Sharing Reductions

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Funding for the [cost-sharing reduction](#) (CSR) payments established under the Patient Protection and Affordable Care Act (ACA) has been the subject of [hearings](#) about the individual insurance market, numerous press articles, and analyses from [actuaries](#) to [consultants](#). [Insurers](#) have warned that they may leave the market or raise premiums without a commitment to sustained funding.

On October 13, the Trump Administration filed a [notice](#) announcing it would terminate payments for CSRs beginning with the payment that was scheduled for October 18, potentially affecting 2017 and 2018 plan options and premiums.

Payment termination may affect not only consumers who receive CSRs and insurers who provide them, but also have secondary effects on the broader individual market, non-CSR consumers, and the federal budget. To understand the concern about funding CSR payments, it is important to understand the context in which CSRs are provided, beginning with premiums.

How Does Cost-Sharing Affect Premiums?

Consumers with private health insurance generally pay for health care in two ways: a premium to purchase the insurance and cost-sharing requirements (e.g., deductibles) that are related to health services received. Insurers collect premiums from consumers and use that revenue to pay primarily for [medical claims](#). To this end, a premium is determined through a months-long process to develop a rate sufficient to cover expected medical claims and other expenses and earn a positive margin.

Once insurers file rates with applicable state and federal authorities and such rates are finalized, premiums are generally set for policies that cover the upcoming year. [Federal regulations](#) require that any insurer in the individual market develop an “index rate” that incorporates prior claims experience for all of the insurer’s individual market policyholders and estimates costs for covering the [essential health benefits](#). This rate is adjusted to account for factors applicable to the individual market (such as the [ACA’s risk adjustment program](#)), a given insurance policy (including that policy’s specific set of cost-sharing requirements), and the [characteristics](#) by which premiums are allowed to vary among consumers. In most states, 2018 rates for individual policies were [finalized](#) by September 27, 2017, which was prior to the Administration’s notice announcing payment termination. (The prior uncertainty about funding motivated [most states](#) to adjust the 2018 rate setting process.)

How Do CSRs Affect Consumer and Insurer Spending?

Given the rate setting rules described above, the premium for an individual policy typically reflects the cost-sharing requirements as determined by the insurer. However, in the case of an eligible consumer, the ACA requires changes to his or her actual cost-sharing requirements. A consumer must enroll in a “[silver plan](#)” and meet income and other eligibility criteria to receive CSRs. The ACA requires that a low-income consumer who is determined to be eligible for CSRs be enrolled in a [plan variation](#) that reduces cost-sharing requirements. Because overall consumer spending is reduced, insurer spending must increase to pay for the covered health services, with the premium staying the same. Under this scenario, the revenue from collected premiums no longer reflects an actuarial estimate of the amount needed to cover expected medical claims. To fully offset this imbalance, the ACA [requires](#) the Secretary of Health and Human Services to provide regular and timely payments to insurers that provide CSRs.

What Is the Status of Funding for the CSR Payments?

The ACA did not provide appropriations for the CSR payments; in the time since the ACA was enacted, neither has subsequent legislation. The prior and current Administrations previously provided funding for the payments through the same source that finances the [ACA tax credit](#); the original administrative action prompted a legal challenge. In 2016, the U.S. District Court for the District of Columbia [concluded](#) that the payments were unconstitutional, but stayed its decision, allowing the Administration to continue to provide the CSR payments should it be inclined. In March 2017, the district court further delayed the case to allow for nonjudicial resolution, including “potential legislative action.” During the current Congress, [legislative ideas](#) have been explored, and [bill language](#) has been [scored](#).

What Are the Potential Impacts of Terminating the CSR Payments?

Termination of CSR payments has the potential to affect both insurers and consumers, but not uniformly. Without CSR payments, many insurers would face substantial losses. Consequently, insurer reactions may range from exiting the exchanges (per [contract](#) language allowing for possible termination due to material breaches of contract terms), raising premiums ([if allowed in a given state](#)), or not taking any action, with a mix of these options depending on the benefit year (remainder of 2017 or 2018).

The Congressional Budget Office (CBO) and the Joint Committee on Taxation developed [estimates](#) of the impact on consumers—prior to the Administration’s announcement and subsequent legislative proposal—based on its assumptions about *hypothetical* legislation that would terminate CSR payments beginning in 2018. The potential consumer impacts would vary depending on metal plans, eligibility for credits and subsidies, and timing. CBO projects that the number of uninsured individuals would be higher in 2018 compared to baseline estimates, mainly due to fewer insurers participating in the individual market. However, CBO expects the uninsured count to be lower after a few years compared to the same baseline. CBO also projects that *gross* premiums for silver plans would increase substantially. Since [most individuals enrolled in exchange plans](#) are eligible for the tax credit, which reduces premiums, CBO projects that most individuals would face *net* premiums that are similar to or less than what they would have paid if CSR payments continued. According to CBO, gross premiums for plans other than silver would experience premiums increases during the first two years, but to a lesser degree compared to silver plans. Because the ACA tax credit [formula](#) is based on silver plan premiums, an increase in such premiums would result in larger federal outlays and increase the federal deficit, as would CBO’s estimate that more individuals would receive the tax credit.

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